

Message Text

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USDOC FOR ASSISTANT SEC. WASHBURN AND BEWT/DOWNEY

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SUBJ: SOVIETS SHIFT POSITION ON COOPERATION WITH U.S. HOTEL COMPANIES

REF: USDOC 5760

1. SUMMARY. DURING MEETING WITH AMBASSADOR APRIL 23, HILTON INTERNATIONAL PRESIDENT STRAND ADVISED THAT SOVIETS HAD ABRUPTLY SHIFTED THEIR POSITION ON KEY QUESTION OF ON-GOING MANAGEMENT RELATIONSHIP AND, AT LEAST FOR THE MOMENT, WERE BACK TO OLD POSITION OF INSISTING THAT COOPERATION ENDS WHEN NEW HOTEL OPENS ITS DOORS. STRAND DEPARTED MOSCOW APRIL 23, CUTTING SHORT HIS VISIT BY TWO DAYS. SITUATION APPEARS TO BE BACK WHERE WE STARTED PRIOR TO SEPTEMBER 1974. DISCUSSIONS. END SUMMARY.

2. IN DISCUSSION WITH AMBASSADOR, STRAND BRIEFLY REVIEWED DEVELOPMENTS SINCE U.S. TOURISM DELEGATION VISITED USSR IN SEPTEMBER 1974. DURING INTEVENING PERIOD, SOVIETS HAD APPEARED TO BE MOVING, ALBEIT VERY GRADUALLY, TOWARD COMPROMISE ON MANAGEMENT ISSUE WHICH WOULD HAVE BEEN ACCEPTABLE FOR U.S. HOTEL COMPANIES. STRAND ADVISED THAT HE HAD MOVED AHEAD ON HIS UNDERTAKING WITH S.S. NIKITIN, CHIEF OF
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THE MAIN ADMINISTRATION FOR FOREIGN TOURISM, TO LOCATE SOURCES

OF FINANCING FOR CONSTRUCTION OF HOTELS IN USSR. IN ABSENCE OF U.S. FINANCING, HILTON HAD REACHED TENTATIVE AGREEMENT WITH FRENCH CONSTRUCTION COMPANY TO UTILIZE PART OF FRENCH CREDIT (700 MILLION FRANCS) ALLOTTED FOR HOTEL CONSTRUCTION. SOVIETS WERE AWARE OF THESE ARRANGEMENTS, STRAD SAID, AND RAISED NO OBJECTION.

3. NEGOTIATIONS WERE CARRIED FORWARD DURING MEETINGS WITH INTOURIST CHIEF BOYCHENKO IN WASHINGTON AND NEW YORK DURING FEBRUARY. AT THAT TIME, BOYCHENKO AND STRAND WORKED OUT DRAFT "HEADS OF AGREEMENT" WHICH CONTAINED SECTIONS ON MANAGEMENT, TRAINING ETC. THIS UNDERSTANDING WAS CONFIRMED DURING FURTHER DISCUSSION IN MOSCOW DURING MARCH BETWEEN BOYCHENKO AND HILTON EXECUTIVE VICE PRESIDENT WILLNER.

4. INITIAL MEETING BETWEEN STRAND AND SANNIKOV OF MAIN TOURISM ADMINISTRATION ON APRIL 21 CONFIRMED HOPEFUL PROSPECTS. ONLY POINT WHICH SANNIKOV RAISED WAS QUESTION OF HOW (AND WHETHER) HILTON SHOULD BE RECOMPENSED FOR ITS ONGOING MANAGEMENT SUPPORT. HOWEVER, DURING MEETING WITH NIKITIN ON APRIL 22, STRAND FOUND THAT SOVIET POSITION HAD SHIFTED RADICALLY. NIKITIN INSISTED, AS HE HAD DONE DURING INITIAL PHASES OF DISCUSSIONS IN SEPTEMBER 1974, THAT THERE COULD BE NO ONGOING MANAGEMENT RELATIONSHIP AND THAT QUESTION WAS SIMPLY ONE OF CONSTRUCTING, WITH FOREIGN CREDITS, HOTELS IN USSR. NIKITIN ALSO REJECTED PROPOSAL THAT HILTON WORK WITH FRENCH CONSTRUCTION COMPANY AND USE FRENCH FINANCING. ACCORDING TO STRAND, HE INSISTED THAT IF HILTON OR OTHER U.S. HOTEL COMPANIES WERE TO BECOME INVOLVED IN USSR, THEY WOULD HAVE TO DO SO WITH U.S. FINANCING AND U.S. CONSTRUCTION COMPANIES, RELYING ON U.S. CONSTRUCTION WORKERS. WHEN STRAND POINTED OUT THAT THE TENTATIVE IHC AGREEMENT INVOLVED USE OF SWEDISH FINANCING AND SWEDISH CONSTRUCTION COMPANIES, NIKITIN CLAIMED THAT HIS AGREEMENT WAS WITH SKANSKA CEMENT ONLY AND THAT IHC HAD NOTHING TO DO WITH PROJECT.

5. COMMENT: ON BASIS OF MEETING WITH NIKITIN, IT WAS NOT SURPRISING THAT STRAND SHORTENED VISIT BY TWO DAYS AND LEFT MOSCOW. HE NOTED NIKITIN HAD CLAIMED THAT BOYCHENKO EXCEEDED HIS AUTHORITY DURING FEBRUARY DISCUSSIONS IN WASHINGTON AND NEW YORK. IN THIS CONNECTION IT WAS INTERESTING THAT, CONTRARY TO PLANS, BOYCHENKO DID NOT PUT IN APPEARANCE DURING STRAND'S VISIT. ONLY RAY OF HOPE REMAINING AFTER STRAND'S VISIT WAS POSSIBILITY OF ARRANGING-
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MENT BETWEEN HILTON AND ORGANIZATION WHICH IS IN CHARGE OF MOSCOW INTERNATIONAL TRADE CENTER. LATTER GROUP IS FIGHTING TO KEEP OUT OF HANDS OF INTOURIST, AND STRAND SAID HE FOUND THEM (PAVLENKO AND TELEGIN) MUCH MORE FLEXIBLE THAN INTOURIST. HE NOTED, HOWEVER, THAT INTERNATIONAL TRADE CENTER WAS RUNNING INTO PROBLEMS WITH COST ESCALATION (TOTAL COST WAS NOW ESTIMATED AT DOLLARS 200 MILLION) AND THAT REQUIREMENT TO GO IN FOR ADDITIONAL FINANCING WOULD PERHAPS WEAKEN PAVLENKO'S POSITION.

6. FOR THE MOMENT, PROSPECTS FOR COOPERATION BETWEEN U.S. HOTEL COMPANIES AND SOVIETS DO NOT SEEM BRIGHT. ONE FACTOR WHICH MIGHT HAVE CAUSED SOVIETS TO SHIFT THEIR POSITION IS AVAILABILITY OF FINANCING FROM FRANCE AND OTHER COUNTRIES FOR CONSTRUCTION OF HOTELS WITH NO MANAGEMENT STRINGS ATTACHED. HOWEVER, AS STRAND POINTED OUT, SOVIETS CLAIM THAT THEY PLAN TO BUILD 40 HOTELS IN MOSCOW ALONE PRIOR TO 1980 OLYMPICS AND, IF THIS IS SO, THEY SHOULD BE ANXIOUS TO TAKE HELP FROM ANY AVAILABLE SOURCE. MOE LIKELY EXPLANATION FOR SOVIET SHIFT IS THAT THEY HAVE NOT YET REACHED POINT WHERE THEY ARE PREPARED TO TAKE PLUNGE INTO UNCERTAIN WATERS OF COOPERATION WITH FOREIGN COMPANIES IN MANAGEMENT AREA.
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